

Auditing Procedures Report

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Issued under Public Act 2 of 1968, as amended.

Unit Name	Bad Axe Area Fire Protection Association	County	HURON	Type	AUTHORITY	MuniCode	32-7-505
Opinion Date-Use Calendar	Jun 4, 2008	Audit Submitted-Use Calendar	Jun 26, 2008	Fiscal Year-Use Drop List	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="Qualified"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 272,529.00
General Fund Expenditure:	\$ 169,154.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 323,330.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Douglas	Last Name	Brining	Ten Digit License Number	1101008283		
CPA Street Address	64 Westland Drive	City	Bad Axe	State	MI	Zip Code	48413
CPA Firm Name	Brining & Nartker, P.C.	Unit's Street Address	420 S. Hanselman St.	City	Bad Axe	LU Zip	48413

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
BAD AXE, MICHIGAN**

**FINANCIAL REPORT
DECEMBER 31, 2007**

BAD AXE AREA FIRE PROTECTION ASSOCIATION

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BRINING & NARTKER, P.C.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Bad Axe Area Fire Board
Bad Axe Area Fire Protection Association
420 S. Hanselman Street
Bad Axe, Michigan 48413


We have audited the accompanying financial statements of the Bad Axe Area Fire Protection Association, as of December 31, 2007, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not prepared their discussion and analysis information for the Bad Axe Area Fire Protection Association. This discussion is required by U.S. generally accepted accounting principles as supplemental information.

In our opinion, except for the omission of management's discussion and analysis as discussed in the previous paragraph, which results in an incomplete presentation, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Bad Axe Area Fire Protection Association as of December 31, 2007, and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information on page 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


BRINING & NARTKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

June 4, 2008

BASIC FINANCIAL STATEMENTS

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

ASSETS:

Current assets:

Cash	\$ 320,331
Prepaid expenses	6,672

Noncurrent assets:

Capital assets (net of accumulated depreciation)	383,912
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TOTAL ASSETS	<u><u>710,915</u></u>
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LIABILITIES:

Current liabilities:

Payroll withholdings payable	3,673
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Noncurrent liabilities	-
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TOTAL LIABILITIES	<u><u>3,673</u></u>
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NET ASSETS:

Investment in capital fixed assets

net of related debt	383,912
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Unrestricted	323,330
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TOTAL NET ASSETS	<u><u>\$ 707,242</u></u>
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The accompanying notes are an integral part of the financial statements.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

PROGRAM EXPENSES:

Public Safety

Personal services	\$ 86,886
Supplies	27,817
Professional and contracted services	4,236
Communications	1,653
Utilities	6,012
Repairs	21,467
Insurance	19,531
Other	1,551
Depreciation expense	53,943

TOTAL PROGRAM EXPENSES	<u>223,096</u>
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PROGRAM REVENUES:

Charges for services	14,985
Operating contributions	239,804
Capital grants and contributions	4,295

TOTAL PROGRAM REVENUES	<u>259,084</u>
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NET PROGRAM REVENUE	<u>35,988</u>
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GENERAL REVENUES:

Interest	10,480
Other	2,964

TOTAL GENERAL REVENUES	<u>13,444</u>
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CHANGE IN NET ASSETS	<u>49,432</u>
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NET ASSETS - BEGINNING OF YEAR	657,810
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NET ASSETS - END OF YEAR	<u><u>\$ 707,242</u></u>
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The accompanying notes are an integral part of the financial statements.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2007**

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 320,331 6,672
TOTAL ASSETS	<u>\$ 327,003</u>
<u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES:	
Payroll withholdings payable	\$ 3,673
TOTAL LIABILITIES	<u>3,673</u>
FUND BALANCE:	
Reserved	278,925
Unreserved	44,405
TOTAL FUND BALANCE	<u>323,330</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 327,003</u>

Total governmental fund balance	\$ 323,330
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	383,912
Net assets of governmental activities	<u>\$ 707,242</u>

The accompanying notes are an integral part of the financial statements.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>GENERAL FUND</u>
REVENUES:	
Contribution from City of Bad Axe	\$ 97,840
Contribution from Colfax Township	79,375
Contribution from Verona Township	62,589
Response fees	14,985
Interest	10,480
Other	7,260
TOTAL REVENUES	<u>272,529</u>
EXPENDITURES:	
Current:	
Public safety	169,154
TOTAL EXPENDITURES	<u>169,154</u>
NET CHANGE IN FUND BALANCE	<u>103,375</u>
FUND BALANCE - JANUARY 1, 2007	219,955
FUND BALANCE - DECEMBER 31, 2007	<u><u>\$ 323,330</u></u>

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balance	\$ 103,375
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay	-
Depreciation	(53,943)
Change in net assets of governmental activities	<u><u>\$ 49,432</u></u>

The accompanying notes are an integral part of the financial statements.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Bad Axe Area Fire Protection Association conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Bad Axe Area Fire Protection Association.

Description of Association Operations

The Association was formed pursuant to the terms of an interlocal agreement dated September 7, 1989. The Association began operations in January 1990 and its purpose is to provide fire protection to the residents and property owners of the constituent units which include the City of Bad Axe, Colfax Township and Verona Township in Huron County, Michigan.

The Association operates under an appointed board consisting of representatives from each constituent unit. All representatives are appointed by their respective governing bodies by resolution and serve following appointment, until a successor is appointed. A board member is eligible for reappointment at the expiration of his (or her) term of office, and must be a resident of the constituent unit which he (or she) represents. A board member shall not be an employee of any fire department of the Association.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB 39, the definition of the reporting entity is based primarily on the premise of financial accountability. The Association is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed component units.

Based on these provisions, there are no organizations that are deemed to be component units of the Association.

Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all nonfiduciary activities. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financials statements are provided for governmental funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

(Continued)

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The governmental fund financial statements consist of the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance. These statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Capital Assets

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements. Capital assets are defined by the Association as assets with an initial individual cost of \$10,000 or more and an estimated life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation is recorded on capital assets on a government-wide basis using the straight-line method with the following estimated useful lives:

Buildings	10 - 40 years
Equipment	5 - 20 years

Accounting Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – BUDGET INFORMATION

The budget and all amendments thereto for the General Fund have been shown at the line item level. The approved budget was adopted at the fund level on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at year-end. The General Fund does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2006, actual expenditures did not exceed budgeted expenditures.

NOTE 3 – CASH

The Association's cash account consists of an interest bearing checking account and certificates of deposit. As of December 31, 2007, the carrying amount and the bank balance of the accounts amounted to \$320,331 and \$335,352, respectively.

(Continued)

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)**

NOTE 3 – CASH (Continued)

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Association's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the Association has \$36,707 of bank deposits (certificates of deposit and checking accounts) that were uninsured and uncollateralized. The Association believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Association evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the current year was as follows:

	Balance January 1, 2007	<u>Increases</u>	<u>Decreases</u>	Balance December 31, 2007
Capital Assets Being Depreciated				
Buildings	\$ 237,727	\$ -	\$ -	\$ 237,727
Equipment	827,415	-	-	827,415
	<u>1,065,142</u>	<u>-</u>	<u>-</u>	<u>1,065,142</u>
Less Accumulated Depreciation for				-
Buildings	75,281	7,661	-	82,942
Equipment	552,006	46,282	-	598,288
	<u>627,287</u>	<u>53,943</u>	<u>-</u>	<u>681,230</u>
Governmental Activity Net Capital Assets Being Depreciated	<u>\$ 437,855</u>	<u>\$ (53,943)</u>	<u>\$ -</u>	<u>\$ 383,912</u>

NOTE 5 – RESERVED FUND BALANCE

Reserved fund balance consists of a cash residual resulting from the receipt of memorials and fundraisers to be used for the purchase of equipment. In addition, funds have been transferred into certificates of deposit to be used for the purchase of equipment. The balance at December 31, 2007 is as follows:

Balance January 1, 2007	\$ 163,593
Donations and fundraisers	2,945
Interest on certificates of deposit	9,387
Funds used to purchase certificate of deposit	100,000
Prior year donations reserved	3,000
Balance, December 31, 2007	<u>\$ 278,925</u>

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)**

NOTE 6 – CONTRIBUTIONS

In the event that it is necessary to finance all or any part of the operating fund or capital expenditures of the Association by contribution, the contribution to be made to the Association by each constituent unit shall be equal to that percentage or proportion which each constituent bears to the whole of the Association based upon the state equalized value of all property. State equalized values shall be based upon figures from the most recently completed calendar year. To be binding upon a constituent unit, any contribution must be authorized by resolution of the governing body of that constituent unit. The failure of the governing body of any constituent unit to authorize its contribution to the Association and/or to pay the same in full to the Association within thirty (30) days of the commencement of the Association's fiscal year shall operate as an immediate withdrawal of that constituent unit from the Association.

Contributions for the year ended December 31, 2007 were \$97,840, \$79,375 and \$62,589 for the City of Bad Axe, the Township of Colfax and the Township of Verona, respectively.

NOTE 7 – RETIREMENT PLAN

The Association offers a Savings Incentive Match Plan for Employees (SIMPLE) to the full time employee. The eligible employee determines the amount of his elective deferral and the Association matches that deferral up to 3% of compensation. The 2007 employer contribution amounted to \$1,184.

SUPPLEMENTAL INFORMATION

**BAD AXE AREA FIRE PROTECTION ASSOCIATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES:				
Contribution from City of Bad Axe	\$ 97,840	\$ 97,840	\$ 97,840	\$ -
Contribution from Colfax Township	79,375	79,375	79,375	-
Contribution from Verona Township	62,589	62,589	62,589	-
Response fees	8,600	8,600	14,985	6,385
Interest	500	500	10,480	9,980
Donations	-	-	2,945	2,945
Miscellaneous	-	-	4,315	4,315
TOTAL REVENUES	<u>248,904</u>	<u>248,904</u>	<u>272,529</u>	<u>23,625</u>
EXPENDITURES:				
Audit services	2,200	2,200	1,665	535
Community promotion	450	450	304	146
Contractual service	1,100	1,100	842	258
Dues and subscriptions	800	800	707	93
Education and training	1,138	1,138	488	650
Equipment repair	6,000	8,000	7,720	280
Expendable equipment	14,000	19,000	19,380	(380)
Gas and oil	4,400	4,400	2,404	1,996
Insurance - general	27,000	20,000	12,339	7,661
Insurance - vehicle	11,000	11,000	8,153	2,847
Insurance - workers compensation	10,000	10,000	2,039	7,961
Legal service	2,500	2,500	1,728	772
Maintenance	4,000	7,000	6,557	443
Office supplies	2,000	2,000	743	1,257
Operating supplies	6,000	6,000	5,107	893
Payroll expenses	85,000	85,000	83,886	1,114
Printing and publishing	150	150	-	150
Radio equipment	5,000	2,000	-	2,000
Radio repair	1,000	1,000	596	404
Travel and meals	500	500	52	448
Utilities	12,200	12,200	7,665	4,535
Vehicle maintenance	8,000	8,000	6,594	1,406
Water	465	465	185	280
TOTAL EXPENDITURES	<u>204,903</u>	<u>204,903</u>	<u>169,154</u>	<u>35,749</u>
NET CHANGE IN FUND BALANCE	<u>44,001</u>	<u>44,001</u>	<u>103,375</u>	<u>59,374</u>
FUND BALANCE - JANUARY 1, 2007	219,955	219,955	219,955	-
FUND BALANCE - DECEMBER 31, 2007	<u>\$ 263,956</u>	<u>\$ 263,956</u>	<u>\$ 323,330</u>	<u>\$ 59,374</u>

BRINING & NARTKER, P.C.

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Bad Axe Area Fire Board Bad Axe Area Fire Protection Association

In planning and performing our audit of the financial statements of the Bad Axe Area Fire Protection Association as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Bad Axe Area Fire Protection Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiency to be a significant deficiency in internal control.

The Association's staff has the ability to record transactions, perform reconciliations, and maintain the general ledger. Generally accepted accounting principles also requires that the Association prepare financial statements including the related notes to the financial statements. As is the case with many small governments, the Association has relied on its independent external auditors to assist in the preparation of the financial statements and notes thereto as part of its external financial reporting process. External auditors cannot, by definition, be considered part of the Association's internal controls over financial reporting. The Association has decided that it is more cost effective and in the best interest of the Association to outsource this task to its external auditors and to carefully review the financial statements and notes thereto prior to approving them and accepting responsibility for their content and presentation.

This communication is intended solely for the information and use of management, the Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Brining & Nartker, P.C.

Brining & Nartker, P.C.
Certified Public Accountants

June 4, 2008